

WESTLAND HOUSING COMMISSION
Westland, Michigan

**FINANCIAL STATEMENTS
AND AUDIT REPORT**

June 30, 2005

Robert J. Tauriainen

Certified Public Accountant

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name Westland Housing Commission		County Wayne
Audit Date 6/30/05		Opinion Date 11/3/05		Date Accountant Report Submitted to State: 2/15/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

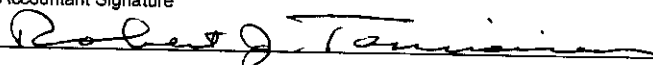
Certified Public Accountant (Firm Name) Robert J. Tauriainen CPA				
Street Address 25140 Lahser Road		City Southfield	State Mi	ZIP 48034
Accountant Signature 			Date 2/24/06	

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Board of Commissioners
Westland Housing
Commission
Westland, Michigan

Department of Housing &
Urban Development
Office of Public Housing
Detroit, Michigan

Independent Auditor's Report

I have audited the accompanying basic financial statements of the Westland Housing Commission, Westland, Michigan, as of and for the year ended June 30, 2005 as listed in the table of contents. These financial statements are the responsibility of the Westland Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in finding number 1, I was unable to obtain a service organization report on the internal controls placed in operation and tests of operating effectiveness; nor was I able to satisfy myself by other auditing procedures.

In my opinion, except for the effects of the matters discussed in the preceding paragraph, the basic financial statements, referred to above present fairly, in all material respects, the financial position of the Westland Housing Commission, as of June 30, 2005, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated November 3, 2005 on my consideration of the Westland Housing Commission's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

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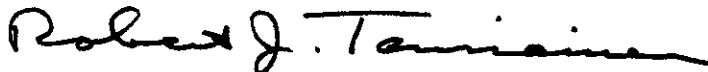
Board of Commissioners
Westland Housing
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Westland, Michigan

Department of Housing &
Urban Development
Office of Public Housing
Detroit, Michigan

Independent Auditor's Report

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board (GASB). I have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying Financial Data Schedule and Schedule of Expenditures of Federal awards and other schedules listed in the table of contents are presented for purposes of additional analysis as required by the Department of Housing and Urban Development and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The Financial Data Schedule and Schedule of Expenditures of Federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Certified Public Accountant
November 3, 2005

WESTLAND HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of June 30, 2005

As management of the Westland Housing Commission (WHC), we offer reviewers of the Commission's financial statements this narrative overview and analysis of the financial activities of the WHC for the fiscal year ended June 30, 2005. We have also incorporated into this report a synopsis of any changes in HUD regulations and policy, as impacted by new congressional legislation and appropriations for the prior fiscal year, and project how these changes will impact the housing commission in the next fiscal period in terms of our general financial activities and provision of affordable housing services.

A -- Using the Fiscal 2005 Year End Settlement Statement

1) Management's Discussion and Analysis

The Management's Discussion and Analysis is intended to serve as an introduction to the Westland Housing Commission's basic financial statements. Financial statements included in this report were prepared in accordance with GAAP applicable to governmental entities in the United States of America for proprietary fund types.

2) Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the WHC's finances, in a manner similar to a private-sector business. They consist of a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

The Statement of Net Assets presents information on all the Commission's assets and liabilities, with the difference between the two reported as changes in total net assets. Increases or decreases in these areas will serve as a useful indicator of whether the financial

position of the WHC is improving or deteriorating. However, these changes must also be analyzed in the context of federal regulatory changes and potential growth opportunities.

The Statement of Revenues, Expenses and Changes in Net Assets presents' information showing "how" the Commission's Net Assets changed during the most recent fiscal year. All changes are reported as soon as the underlying event gives rise to the change, regardless of the timing of unrelated cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned, but unused vacation leave).

The basic financial statements report on the WHC's activities. The Housing Commission's primary objective is to provide decent, safe, and sanitary housing to low income and special needs populations. The activities required to reach this objective are supported almost 100% by HUD subsidies and grants.

3) Notes to Financial Statements

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the Basic financial statements. The Notes to Financial Statements can be found in the full audit report after the basic financial statements.

4) Supplemental Information

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget, Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. The schedule of expenditures of federal awards can also be found in the full audit report.

B - Financial and Operational Highlights for Fiscal 2005

The Westland Housing Commission (WHC) ended fiscal year 2005 with 878 leased Section 8 housing units out of a total baseline of 1090 units. During fiscal 2005 WHC received a new Annual Contributions Contract (ACC) from HUD in the amount of \$1,502,256 for the Canterbury Mews Housing Conversion Action. WHC began leasing these units in January of 2005, thus increasing its baseline by 263 units. At the end of fiscal 2005 WHC had leased up a total of 120 new voucher holders. This represents a growth rate of 16% in a one-year period. For fiscal year 2005 a total of \$5,049,861 in HUD PHA grants were earned. Other financial highlights are as follows:

- 1) In fiscal 2005 the WHC acquired a fourth housing conversion contract from HUD at the Canterbury Mews Cooperative in Canton. Due to this project and HUD's new funding system for opt-outs, which front loads housing assistance payments without adjustments, current assets increased to \$1,592,020. The WHC does have accounts payable to HUD of \$1,032,331. Operating expenses exceeded operating revenues for both 2003 and 2004. However, this trend reversed itself in fiscal 2005 when new fees were obtained for vouchers from Canterbury Mews.
- 2) Maximum annual contributions available increased from \$4,243,981 in 2004 to \$6,170,715 in 2005. Unrestricted Net Assets increased from \$332,096 to \$385,349. Both increases were due to an increased number of vouchers under lease and fees generated by the Canterbury Mews housing conversion action.
- 3) Ongoing administrative fees totaled \$455,803 for the fiscal year, and total preliminary fees earned were \$65,750.
- 4) Interest earned on operating reserves increased from \$2,749 in 2004 to \$5,068 in 2005. Although this was a significant increase, this does not impact total revenues for the fiscal year since interest earnings constitutes a small percentage of total revenue.
- 5) Periodically, significant capital outlays must be made to maintain the WHC computer system, which along with experienced staff, are the driving engines behind the commission's housing operations. In fiscal 2005 the Housing Commission replaced its obsolete DOS based

housing software with new Windows based software, known as Elite, provided by a nationally known housing software provider, Emphasys Computer Systems. The upgrade and training took approximately four months and cost approximately \$24,254.

C - The Westland Housing Commission as a Whole

The WHC's Net Asset position will increase or decrease each year depending upon several factors including HUD regulations and policy, the amount of administrative reserves and any major equipment acquisitions. The WHC does not own land or buildings. It leases space in a city building. The primary equipment owned is one inspection vehicle shared by the entire department, one computer fileserver and six workstations, and office furniture for five employees. The WHC shares its executive director with the Department of Community Development, and therefore does not have its own director. This results in tremendous cost savings. The Commission's primary revenue sources are Section 8 Housing Voucher subsidies, hard to house fees, preliminary lease up fees and Family Self Sufficiency grants all coming from the Department of Housing and Urban Development. Funds are received monthly from HUD based upon an annual budget and monthly payment schedule determined at the beginning of the calendar year. Currently, multiple, short term Annual Contribution Contracts fund each annual budget. Monetary shortfalls due to over leasing or excessive spending on HAP or administrative expenses will no longer be approved or funded by HUD. In addition, housing commission's no longer having the safety net of a formal ACC program reserve account to fund shortfalls in Housing Assistance Payments. The amount of administrative operating reserve to fund shortfalls in administrative expenses varies by housing commission across the country. Westland's administrative reserve is more than adequate, according to current accounting standards. For fiscal 2005, the WHC had earned total administrative fees of \$537,180 (including special fees) and had ongoing administrative expenses of \$480,542.

Schedule A - Statement of Net Assets

	Year Ended 06/30/2004	Year Ended 06/30/2005
ASSETS		
CURRENT ASSETS		
CASH (UNRESTRICTED)	\$558,787	\$1,592,020
ACCOUNTS & NOTES RECEIVABLE	3,315	0
<i>TOTAL CURRENT ASSETS</i>	\$562,102	\$1,592,020
NONCURRENT ASSETS		
FURNITURE, EQUIPMENT, & MACHINERY - ADMINISTRATION	\$83,605	\$104,186
ACCUMULATED DEPRECIATION	(65,152)	(\$75,826)
TOTAL FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION	18,453	\$28,360
<i>TOTAL NONCURRENT ASSETS</i>	18,453	\$28,360
TOTAL ASSETS	\$580,555	\$1,620,380
LIABILITIES		
<i>TOTAL CURRENT LIABILITIES</i>	\$199,107	\$1,157,455
<i>TOTAL NONCURRENT LIABILITIES</i>	\$30,899	\$49,216
TOTAL LIABILITIES	\$230,006	\$1,206,671
NET ASSETS		
INVESTED IN CAPITAL ASSETS (Net of Debt)	\$18,453	\$28,360
UNRESTRICTED NET ASSETS	332,096	\$385,349
TOTAL EQUITY	\$350,549	\$413,709
TOTAL LIABILITIES & EQUITY	\$580,555	\$1,620,380

Schedule B -Statement of Revenues and Expenditures

	Year Ended 06/30/2004	Year Ended 06/30/2005
REVENUE		
HUD PHA GRANTS	\$4,449,551	\$5,049,861
INTEREST EARNED ON OPERATING REVENUE	2,749	5,068
INTEREST EARNED ON GENERAL FUND	NA	5,000
OTHER REVENUE	240	286
TOTAL REVENUE	\$4,452,540	\$5,060,215
EXPENSES		
ADMINISTRATIVE SALARIES	\$197,237	\$201,677
AUDITING FEES	2,420	2,420
COMPENSATED ABSENCES	(494)	3,356
EMPLOYEE BENEFIT CONTRIBUTIONS - ADMIN	120,685	135,962
OTHER OPERATING	135,937	126,436
TENANT SERVICES - FSS	24,161	10,691
TOTAL OPERATING EXPENSES	479,946	480,542
TENANT HOUSING ASSISTANCE PAYMENT	3,987,356	4,517,681
DEPRECIATION EXPENSE	8,738	10,674
TOTAL EXPENSES	\$4,476,040	\$5,008,897
EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(\$23,500)	\$51,318

D - Statutory Authority of Budget Documents

The Annual Contributions Contract portion of the budget was prepared in accordance with accounting procedures prescribed by HUD. The WHC operating budget was prepared in accordance with standards set by the City of Westland finance department. The Westland Housing Commission approves the operating budget annually although this budget has no legal stature and is used only as a management tool.

E - Capital Assets and Debt Administration

1) As of June 30, 2005, the Commission's total assets were \$1,620,380, all of which is in the Section 8 Housing Program, which consists of administering Housing Choice Voucher contracts. Of this amount, \$1,592,020 consisted of unrestricted cash. A total of \$104,186 or \$28,360 (net of accumulated depreciation) was in equipment, computers, and furniture.

2) Short Term and Long Term Debt

The Westland Housing Commission does not have any short term or long term debt.

F - Infrastructure Assets

This section is not applicable to the Westland Housing Commission since the WHC does not own any infrastructure assets.

G - Economic Factors Affecting Next Year's Budget Expenditure and Revenue Considerations

The following factors were considered in preparing the Housing Commission's budget for the fiscal year ending June 30, 2006.

1) The outlook for voucher funding, FMR's, and administrative fees still looks grim for fiscal 2005 - 2006. No cuts were made during 2005.

Voucher funding notices for 2005/2006 or calendar year 2006 should be made available in December of 2006. However, the need to fund special "Hurricane Katrina Relief Vouchers" will put a large dent in the federal assisted housing budget for the next several years. The WHC sees restrictive voucher funding conditions for the next two years.

- 2) The WHC Family Self Sufficiency program had been a successful and self sustaining program for the past decade. The WHC has total of (39) participating families, and 17 families with escrow accounts. The program has been funded during the past (10) years with HUD grants averaging \$28,000 to \$32,000 annually for case management. In view of HUD's budget cuts this program can no longer be sustained without the annual FSS grant. The WHC did not receive an FSS Grant in fiscal 2004 and operated the program with funding from its operating reserve. Therefore, this program will be terminated if the WHC does not receive it's 2005 Family Self Sufficiency grant which is currently being evaluated by HUD.
- 3) Although inflation is still low and appears to be under control, wage costs for housing staff will continue to put pressure on the commission's annual operating budget. During the past two years the commission has added additional vouchers as a way of increasing revenues to offset these increasing wage costs. In addition, the management at WHC has tried to develop new methods of administrating more voucher units without a commensurate increase in wage costs. Should voucher administrative expenses exceed revenues during the next several fiscal periods; the Westland Housing Commission will be able to utilize its unrestricted net assets (\$385,349) to cover minimal to moderate operating deficits for the next few years. By then, hopefully Congress and HUD will adjust total voucher funding to reflect the actual cost of administering this very important national subsidized housing program.

H - Contacting the Westland Housing Commission with Respect to the Commission's Financial Management.

The Management Discussion and Analysis is designed to provide a general overview of the WHC's finances for the general public in an easy to read

format. Questions concerning any of the information provided in this report or requests for additional financial information must be submitted in written form to James Gilbert, Executive Director, Westland Housing Commission, 32715 Dorsey Rd., Westland, MI 48186.

Westland Housing Commission
Statement Of Net Assets
June 30, 2005

Assets	
Current assets:	
Cash and cash equivalents	1,592,020
Total current assets	<u>1,592,020</u>
Noncurrent assets:	
Capital assets:	
Buildings and equipment	104,186
Less accumulated depreciation	<u>(75,826)</u>
Capital assets, net	<u>28,360</u>
Total assets	<u><u>1,620,380</u></u>
Liabilities	
Current liabilities:	
Accounts payables	1,156,378
Compensated absences	<u>1,077</u>
Total current liabilities	<u>1,157,455</u>
Noncurrent liabilities:	
Compensated absences	9,697
FSS escrow and other	<u>39,519</u>
Total liabilities	<u>1,206,671</u>
Net Assets	
Invested in capital assets, net of related debt	28,360
Unrestricted	<u>385,349</u>
Total net assets	<u>413,709</u>
Total liabilities and net assets	<u><u>1,620,380</u></u>

See Accompanying notes to financial statements

Westland Housing Commission
Statement of Revenues, Expenses and Changes in Net Assets
June 30, 2005

Operating revenues:	
Investment income	10,068
Federal sources	5,049,861
Miscellaneous	286
Total operating revenues	<u>5,060,215</u>
Operating expenses:	
Administrative	469,852
Tenant services	10,690
Housing assistance payments	4,517,681
Total operating expenses	<u>4,998,223</u>
Operating income (loss)	<u>61,993</u>
Nonoperating expenses:	
Depreciation	10,674
Total nonoperating expenses	<u>10,674</u>
Total expenses	<u>5,008,897</u>
Net income (loss) and Change in net assets	<u>51,318</u>
Total net assets - beginning	<u>362,391</u>
Total net assets - ending	<u><u>413,709</u></u>

See Accompanying notes to financial statements

Westland Housing Commission
Statement of Cash Flows
June 30, 2005

Cash flows from operating activities:

Other operating cash receipts	286
Cash paid for HAP's	(4,517,681)
Cash paid for operating expenditures	(122,050)
Cash paid to employees for services	<u>(417,306)</u>

Net cash used in operating activities (5,056,751)

Cash flows from noncapital financing activities:

Operating grants received	6,085,201
Sale (purchase) of fixed assets	(20,581)
Net increase (decrease) in FSS escrow	<u>15,296</u>

Net cash provided by noncapital financing activities 6,079,916

Cash flows from capital and related financing activities:

Net cash provided by (used in) capital and related financing activities - 0

Cash flows from investing activities:

Interest received (paid)	<u>10,068</u>
Net cash (used) provided in investing activities	<u>10,068</u>

Net increase (decrease) in Cash and cash equivalents 1,033,233

Beginning of period 558,787

End of period 1,592,020

See Accompanying notes to financial statements

Westland Housing Commission
Statement of Cash Flows
June 30, 2005

Reconciliation of Operating		
Income to Net Cash used in		
Operating Activities		
Operating Income (loss)		61,993
Adjustments to reconcile operating		
income (loss) to net cash provided		
by (used in) operating activities:		
Interest received	(10,068)	
Grants	(6,085,201)	
Decrease (increase) in		
Accounts receivable:		
HUD subsidy and grants	3,009	
Increase (decrease) in		
Accounts payable:		
Trade	17,496	
HUD	1,032,331	
Accrued liabilities:		
Wages and payroll taxes	(79,667)	
Compensated absences	3,356	
		<u> </u>
Total adjustments		<u>(5,118,744)</u>
Net cash provided by (used in)		
operating activities -		<u><u>(\$5,056,751)</u></u>

See Accompanying notes to financial statements

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2005

(1) Summary of Significant Accounting Policies

The Westland Housing Commission ("The Authority") is a non-profit corporation which was organized under the laws of the State of Michigan to provide Low-Rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal Agencies.

Section 8 Housing - The objectives of the program is to help low-income families obtain decent, safe, and sanitary housing through a system of rental subsidies. HUD entered into a Annual Contributions Contract (ACC) with the Authority. The Authority enters into a housing assistance payments contract with private owners. The owners rent housing to eligible low-income families who typically pay the highest of 30 percent of adjusted income, 10 percent of gross income, or the portion of welfare assistance designated to meet housing costs for rent. The remaining portion of the rent for the unit is paid to the owner by the Authority in a housing assistance payment.

The Authority policy is to prepare its basic financial statements in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies follow.

A. Reporting Entity

All significant activities and organizations on which the Authority exercises oversight responsibility have been included in the Authority's financial statements, for the year ended June 30, 2005. This report includes all of the services provided by the Authority to residents within its boundaries. In evaluating the Authority's reporting entity, in accordance with GASB Statement No. 14, the Authority has included all organizations that make up the Authority's legal entity.

The following criteria regarding manifestation of oversight were considered by the Authority in its evaluation of the Authority organizations and activities:

Financial interdependency - The Authority is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the Authority.

Appointment of the government authority - The Authority is governed by a Board of Commissioners, appointed by the local government, and has governance responsibilities over all activities related to Low-Rent housing within that community.

Designation of the Executive Director - The Board of Commissioners have decision making responsibility and the power to designate a Executive Director who

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2005

administers Authority policies.

Ability to significantly influence operations - The Board of Commissioners have the responsibility to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, signing contracts, and developing the programs to be provided.

Accountability of fiscal matters - The responsibility and accountability over all funds is vested in the Board of Commissioners and its designated Executive Director.

Component Units - Consistent with applicable guidance, the criteria used by the Authority to include component units within its reporting entity are financial accountability and the nature and significance of the relationship. At June 30, 2005, the Authority had no component units which met that criteria.

B. Fund Type

The Authority uses enterprise fund accounting to account for its financial position and results of operations. The enterprise fund type was used because the Authority operations are financed and operated in a manner similar to private business enterprises - where the intent of the Authority is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered through user charges.

C. Measurement Focus and Basis of Accounting

The Authority uses the economic resources measurement focus. Accordingly, all assets and liabilities are recorded on the balance sheet. The reported net assets is segregated into capital assets net of related debt, unrestricted net assets and restricted net assets. Each component of net assets may be used to meet current obligations. Restricted net assets are subject to constraints externally imposed and are reduced by related liabilities. Operating statements present increases (revenues) and decreases (expenses) in net assets. The full accrual basis of accounting is used. Revenues are recognized when they are earned and become measurable and expenses are recognized when incurred, if measurable.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Housing Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2005

Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. The Housing Authority uses a single Enterprise Fund to maintain its financial records on an accrual basis.

D. Capital Assets

The accounting and reporting treatment applied to the Capital Assets associated with the financial statements are determined by the Authority's measurement focus and are accounted for in the Authority's enterprise fund.

All Capital Assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated Capital Assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible Capital Assets is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net assets. Depreciation is provided over the estimated useful lives using the straight-line method.

E. Income Taxes

No provision for income taxes is recorded in the accounts as the Authority is a non-profit, tax exempt entity under the Internal Revenue Code. The Authority is not subject to Federal or State income taxes, nor is it required to file Federal and State income tax returns.

F. Deferred Revenue

HUD Grants, operating subsidy, HAP subsidy and tenants rents are recognized in the applicable program year.

G. Budgets

An operating budget is adopted each year by the Authority and depending on certain performance indicators, may or may not be approved by the Department of Housing and Urban Development.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2005

Actual results could differ from those estimates.

I. Pensions

Plan Description. The Westland Housing Commission contributes to the Municipal Employees Retirement System of Michigan (MERS), a cost-sharing multiple-employer defined benefit pension plan administered by the MERS Retirement Board. MERS provides retirement benefits to plan members. The MERS Retirement Board has the authority to establish and amend benefit provisions. The Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan or by calling 1-517-703-9030.

Funding Policy. The Westland Housing Commission is required to contribute at an actuarially determined rate depending on the benefit plan adopted. The current PHA rate is 39.47% of annual covered payroll. The contribution requirements for the Westland Housing Commission are established and may be amended by the MERS Retirement Board. The Westland Housing Commission's contribution to MERS for the year ending June 30, 2005, June 30, 2004 and June 30, 2003 were \$74,106.41, \$55,469.40 and \$46,930.84 respectively and was equal to the required contributions for those years. At June 30, 2005 there were 5 plan members.

J. Vacation Pay:

The Authority provides leave benefits for its employees based on comparable practices by local public bodies. The personnel policy provides that, upon termination, employees will be paid all accumulated annual leave at their rate of pay upon termination.

At June 30, 2005 the Authority is contingently liable to employees for accumulated unpaid vacation pay in the amount of \$10,774.07. This amount has been recorded in the financial statements. Amounts not expected to be paid within the next fiscal year are classified as long term liabilities.

K. Insurance and Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

The Authority continues to carry commercial insurance for other risks of loss. There has been no significant reduction in insurance coverage from the coverage in the prior year.

L. Prior Period Adjustments:

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2005

The Authority's prior period adjustments are as follows:

Legal expense reimbursement - \$12,148.00 credit.
HUD adjustment of annual contribution - \$306.00 debit.

(2) Cash and Investments:

Cash and investments are stated at cost, which approximates fair value, and at June 30, 2005 consisted of the following:

<u>Account</u>	<u>Section 8</u>
Cash - General Fund (Development and/or Operation)	<u>1,592,020.09</u>
Total Cash	<u>\$1,592,020.09</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Public Housing Authority's deposits may not be returned to it.

The Annual Contributions Contract (ACC) requires the HA to deposit and invest all program funds for projects under an ACC in accordance with the terms of a General Depository Agreement (HUD-51999) entered into between the Financial Institution and the Public Housing Authority which requires that all deposits and accounts of the Depository shall continue to be insured by the Federal Deposit Insurance Corporation (FDIC). Any portion of the Public Housing Authority's Funds not insured shall be fully (100%) and continuously collateralized with specific and identifiable (not pooled) U.S. Government securities prescribed by HUD. Such securities shall be owned by the depository and the manner of collateralization shall provide the HA with a continuing perfected security interest for the full term of the deposit.

A portion of the Housing Authority's funds do not meet these requirements. As of June 30, 2005, \$765,368.80 of the Public Housing Authority's bank balance of \$1,592,020.09 was exposed to a custodial credit risk by being uninsured and uncollateralized.

Concentration of Credit Risk. Neither the Department of Housing and Urban Development or the Public Housing Authority places any limit on the amount the Public Housing Authority may invest in any one Depository. More than 5 percent of the Public Housing Authority's investments are with specific depository's. 100% of the Public Housing Authority's cash and investments are with the JPMorgan/Chase Bank, N.A.

(3) Land, Structures and Equipment:

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2005

Development, Modernization and Land, Structures and Equipment balances at June 30, 2005 consisted of the following:

<u>Account</u>	<u>Section 8</u>
Furniture, Equipment & Machinery - Admin.	104,186.02
Accumulated Depreciation	<u>(75,826.01)</u>
Total Land, Structures and Equipment	<u>\$28,360.01</u>

The PHA capitalizes items costing at least \$750.00 with a life of more than one year.

Depreciation is computed using the straight line method as follows:

Computers	3 years
Office Equipment	7 years
Automobiles	5 years

A summary of changes in Capital Assets follows:

Balance June 30, 2004	\$18,453.39
Purchases	20,581.00
Current year depreciation	<u>(10,674.38)</u>
Balance June 30, 2005	<u>\$28,360.01</u>

(4) Accounts Payable:

Accounts payable at June 30, 2005 consist of the following:

<u>Account</u>	<u>Section 8</u>
Accounts Payable - Vendors and Contractor	41,589.57
Accounts Payable - HUD	1,032,331.00
Accounts Payable - Payrolls, Deductions & Contributions	<u>82,457.16</u>
Total Accounts Payable	<u>\$1,156,377.73</u>

Westland Housing Commission

Financial Data Schedule

June 30, 2005

Section 8
Housing
Choice
Voucher
Program
14.871

Line	Account Description	
ASSETS:		
CURRENT ASSETS:		
Cash:		
111	Cash - unrestricted	1,592,020
112	Cash - restricted - modernization and development	-
113	Cash - other restricted	-
114	Cash - tenant security deposits	-
100	Total cash	1,592,020
Accounts and notes receivables:		
121	Accounts receivable - PHA projects	-
122	Accounts receivable - HUD other projects	-
124	Accounts receivable - other government	-
125	Accounts receivable - miscellaneous	-
126	Accounts receivable- tenants - dwelling rents	-
126.1	Allowance for doubtful accounts - dwelling rents	-
126.2	Allowance for doubtful accounts - other	-
127	Notes and mortgages receivable- current	-
128	Fraud recovery	-
128.1	Allowance for doubtful accounts - fraud	-
129	Accrued interest receivable	-
120	Total receivables, net of allowances for doubtful accounts	-
Current investments		
131	Investments - unrestricted	-
132	Investments - restricted	-
142	Prepaid expenses and other assets	-
143	Inventories	-
143.1	Allowance for obsolete inventories	-
144	Interprogram - due from	-
146	Amounts to be provided	-
150	TOTAL CURRENT ASSETS	1,592,020
NONCURRENT ASSETS:		
Fixed assets:		
161	Land	-
162	Buildings	-
163	Furniture, equipment & machinery - dwellings	-
164	Furniture, equipment & machinery - administration	104,186
165	Leasehold improvements	-
166	Accumulated depreciation	(75,826)
160	Total fixed assets, net of accumulated depreciation	28,360
Other non-current assets:		
171	Notes and mortgages receivable - non-current	-
172	Notes and mortgages receivable-non-current - past due	-
174	Other assets	-
175	Undistributed debits	-
176	Investment in joint ventures	-
180	TOTAL NONCURRENT ASSETS	28,360
190	TOTAL ASSETS	1,620,380
LIABILITIES AND EQUITY:		
Liabilities:		

Westland Housing Commission

Financial Data Schedule

June 30, 2005

Account Description		Section 8 Housing Choice Voucher Program 14.871
Current Liabilities:		
311	Bank overdraft	-
312	Accounts payable < 90 days	41,590
313	Accounts payable > 90 days past due	-
321	Accrued wage/payroll taxes payable	82,457
322	Accrued compensated absences	1,077
324	Accrued contingency liability	-
325	Accrued interest payable	-
331	Accounts Payable - HUD PHA Programs	1,032,331
332	Accounts Payable - PHA projects	-
333	Accounts payable - other government	-
341	Tenant security deposits	-
342	Deferred revenue	-
343	Current portion of L-T debt - capital projects	-
344	Current portion of L-T debt - operating borrowings	-
345	Other current liabilities	-
346	Accrued liabilities - other	-
347	Interprogram - due to	-
310	TOTAL CURRENT LIABILITIES	1,157,455
NONCURRENT LIABILITIES:		
351	Long-term debt, net of current - capital projects	-
352	Non-current liabilities-compensated absence	9,697
353	Non-current liabilities-FSS & other	39,519
350	TOTAL NONCURRENT LIABILITIES	49,216
300	TOTAL LIABILITIES	1,206,671
NET ASSETS:		
501	Investment in general fixed assets	-
Contributed Capital:		
502	Project notes (HUD)	-
503	Long-term debt - HUD guaranteed	-
504	Invested in Net Assets Net of Related Debt	28,360
505	Other HUD contributions	-
507	Other contributions	-
508	Total Invested in Net Assets Net of Related Debt	28,360
Restricted Net Asset Balance:		
509	Restricted for operating activities	-
510	Restricted for capital activities	-
511	Total Restricted Net Assets	-
512	Total Unrestricted Net Assets	385,349
513	TOTAL NET ASSETS	413,709
600	TOTAL LIABILITIES AND NET ASSETS	1,620,380
REVENUE:		
703	Net tenant rental revenue	-
704	Tenant revenue - other	-
705	Total tenant revenue	-
706	HUD PHA grants	5,049,861
708	Other government grants	-
711	Investment income - unrestricted	10,068
712	Mortgage interest income	-
714	Fraud recovery	266
715	Other revenue	20
716	Gain or loss on sale of fixed assets	-
720	Investment income - restricted	-
700	TOTAL REVENUE	5,060,215

Westland Housing Commission

Financial Data Schedule

June 30, 2005

Section 8
Housing
Choice
Voucher
Program
14.871

Account Description

EXPENSES:		
Administrative		
911	Administrative salaries	201,677
912	Auditing fees	2,420
913	Outside management fees	-
914	Compensated absences	3,356
915	Employee benefit contributions- administrative	135,962
916	Other operating- administrative	126,436
Tenant services		
921	Tenant services - salaries	-
922	Relocation costs	-
923	Employee benefit contributions- tenant services	-
924	Tenant services - other	10,690
Utilities		
931	Water	-
932	Electricity	-
933	Gas	-
934	Fuel	-
935	Labor	-
937	Employee benefit contributions- utilities	-
938	Other utilities expense	-
Ordinary maintenance & operation		
941	Ordinary maintenance and operations - labor	-
942	Ordinary maintenance and operations - materials & other	-
943	Ordinary maintenance and operations - contract costs	-
945	Employee benefit contributions- ordinary maintenance	-
Protective services		
951	Protective services - labor	-
952	Protective services- other contract costs	-
953	Protective services - other	-
955	Employee benefit contributions- protective services	-
General expenses		
961	Insurance premiums	-
962	Other general expenses	-
963	Payments in lieu of taxes	-
964	Bad debt - tenant rents	-
965	Bad debt- mortgages	-
966	Bad debt - other	-
967	Interest expense	-
968	Severance expense	-
969	TOTAL OPERATING EXPENSES	480,542
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	4,579,674
971	Extraordinary maintenance	-
972	Casualty losses - non capitalized	-
973	Housing assistance payments	4,517,681
974	Depreciation expense	10,674
975	Fraud losses	-
976	Capital outlays- governmental funds	-
977	Debt principal payment- governmental funds	-
978	Dwelling units rent expense	-
900	TOTAL EXPENSES	5,008,897

Westland Housing Commission
Financial Data Schedule
June 30, 2005

		Section 8 Housing Choice Voucher Program 14.871
Account Description		
OTHER FINANCING SOURCES (USES)		
1001	Operating transfers in	-
1002	Operating transfers out	-
1003	Operating transfers from/to primary government	-
1004	Operating transfers from/to component unit	-
1005	Proceeds from notes, loans and bonds	-
1006	Proceeds from property sales	-
1010	TOTAL OTHER FINANCING SOURCES (USES)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	51,318
MEMO ACCOUNT INFORMATION:		
1101	Capital contributions	
1102	Debt principal payments - enterprise funds	
1103	Beginning Net Assets	350,549
1104	Prior period adjustments and Net Asset transfers	11,842
1105	Changes in compensated absence liability	
1106	Changes in contingent liability balance	
1107	Changes in unrecognized pension transition liability	
1108	Changes in special term/severance benefits liability	
1109	Changes in allowance for doubtful accounts - dwelling rents	
1113	Maximum annual contributions commitment (per ACC)	6,155,078
1114	Prorata maximum annual contributions applicable to a period of less than twelve months	
1115	Contingency reserve, ACC program reserve	15,637
1116	Total annual contributions available	6,170,715
1120	Unit months available	9,924
1121	Number of unit months leased	9,592

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Westland, Michigan

Department of Housing &
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Office of Public Housing
Detroit, Michigan

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

I have audited the financial statements of the Westland Housing Commission as of and for the year ended June 30, 2005 and have issued my report thereon dated November 3, 2005 which opinion was qualified because of the limitation of the scope of my audit. Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

As discussed in finding number 1, I was unable to obtain a service organization report on the internal controls placed in operation and tests of operating effectiveness; nor was I able to satisfy myself by other auditing procedures.

Internal Control Over Financial Reporting - In planning and performing my audit, I considered the Westland Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Westland Housing Commission's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as finding # 1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is a material weakness.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Westland Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant
November 3, 2005

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Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Compliance - I have audited the compliance of the Westland Housing Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The Westland Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Westland Housing Commission's management. My responsibility is to express an opinion on the Westland Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the Westland Housing Commission's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Westland Housing Commission's compliance with those requirements.

In my opinion, the Westland Housing Commission has complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding number 2.

Internal Control Over Compliance - The management of the Westland Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Westland Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operations that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

November 3, 2005

Westland Housing Commission
Schedule of Expenditures of Federal Awards
June 30, 2005

<u>Federal Grantor and Program Title</u>	<u>FFA Amounts</u>
--	--------------------

<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>	
--	--

<u>Lower Income Housing Assistance Program</u> <u>Section 8 Housing Choice Vouchers</u>	
--	--

CFDA No. - 14.871	
Pass-Through Grantor's Number - N/A	
Program Expenditures	<u>5,049,861</u>

<u>TOTAL DEPARTMENT OF HOUSING AND URBAN</u> <u>DEVELOPMENT EXPENDITURES</u>	<u>5,049,861</u>
---	------------------

<u>TOTAL FEDERAL FINANCIAL ASSISTANCE</u>	<u><u>\$5,049,861</u></u>
---	---------------------------

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance and federal cost reimbursement Contracts of the Westland Housing Commission. The Westland Housing Commission receives Federal awards directly from Federal agencies.

Federal program expenditures, included in the accompanying schedule, are presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A133, Audits of States, Local Governments, and Non-Profit Organizations.

(2) Major Programs

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

Summary of Auditor Results,
Schedule of Prior Audit Findings,
Schedule of Findings and Questioned Costs

Financial Statement

Type of auditor's report issued: qualified
Internal control over financial reporting
Material weakness(es) identified? Yes
Reportable condition(s) identified that are not considered to be material weaknesses?
none reported
Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? no
Reportable condition(s) identified that are not considered to be material weaknesses?
none reported
Type of auditor's report issued on compliance for major programs: unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes
Major programs:
14.871 Section 8 Housing Choice Voucher
Dollar threshold used to distinguish between type A and type B program: \$300,000.00
Auditee qualified as low-risk auditee? no

Summary Schedule Of Prior Audit Findings

The audit report for the period ended June 30, 2004 contained one finding.

<u>Fiscal</u> <u>Year</u>	<u>Finding</u> <u>Number</u>	<u>CFDA</u> <u>No.</u>	<u>Finding</u>	<u>Comments</u>
2004	04-1	14.871	Internal Control Weakness - Disbursements	This finding is cleared

Findings and Questioned Costs

Financial Statement Findings

There are financial statement findings reported. Finding No. 1

Findings Related to Federal Awards

There are findings related to Federal Awards reported. Finding No. 2

Finding/Noncompliance

**Questioned
Costs**

Finding No. 1

None

No Service Organization Report

The PHA uses a service organization as part of its information system and the service organization affects the PHA's accounting records, supporting information, and specific accounts in the financial statements covered by the audit.

Professional standards require the PHA Auditor to obtain an understanding of the controls in place by the service organization whose services were part of the PHA's information system.

This understanding of the controls in place at the service organization requires the service organization to obtain a report, prepared by the service organization Auditors, on the internal controls placed in operation and tests of operating effectiveness. The service organization has not provided this report to the PHA and I was unable to satisfy myself on the internal controls placed in operation, at the service organization, and tests of operating effectiveness, by other auditing procedures.

Because the service organization has not provided the report on internal controls placed in operation and tests of operating effectiveness, the PHA will receive a qualified opinion on its financial statements because of a limitation in the scope of the Independent Audit.

OMB-A133 states, "Subpart E—Auditors, §____. 500 Scope of audit... (c) Internal controls. (1) In addition to the

Finding/Noncompliance

**Questioned
Costs**

Finding No. 1

None

No Service Organization Report

requirements of GAGAS, the auditor shall perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs.

(2) Except as provided in paragraph (c)(3) of this section, the auditor shall:

Plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program"

AU 324.12 states, "A service auditor's report on controls placed in operation at the service organization should be helpful in providing a sufficient understanding to plan the audit of the user organization. Such a report, however, is not intended to provide any evidence of the operating effectiveness of the relevant controls that would allow the user auditor to reduce the assessed level of control risk below the maximum. Such evidential matter should be derived from one or more of the following:

Finding/Noncompliance

**Questioned
Costs**

Finding No. 1

None

No Service Organization Report

a. Tests of the user organization's controls over the activities of the service organization (for example, the user auditor may test the user organization's independent re-performance of selected items processed by a service organization or test the user organization's reconciliation of output reports with source documents.

b. A service auditor's report on controls placed in operation and tests of operating effectiveness, or a report on the application of agreed-upon procedures that describes relevant tests of controls.

c. Appropriate tests of controls performed by the user auditor at the service organization."

OMB requires the auditor to support a low assessed level of control risk. Generally Accepted Auditing Standards require that an assessed level of control risk, below the maximum, would require the testing of controls at the service organization.

Recommendation

I recommend that the PHA obtain the required service organization report.

Finding/Noncompliance

**Questioned
Costs**

Finding No. 1

None

No Service Organization Report

PHA Reply and Corrective Action Plan

This finding was issued against the housing commission's contracted fee accountant, Montross Associates, Inc of West Bloomfield. Montross Associates conducts all of the PHA's formal accounting. The auditor indicated that SAS 70 requires that the housing commission's fee accountant periodically have an independent, authorized auditing firm visit the fee accountants place of business and evaluate all internal controls the fee accountant has placed in operation; and, test the operating effectiveness of those controls. This includes an evaluation and testing of the fee accountant's computers and computer systems. Then the independent, authorized auditing firm issues a report to the fee accountant on the results of their findings. The fee accountant then forwards a copy of that report to the WHC for use by the WHC's independent auditor.

This appears to be a new accounting standard that is recently being enforced. I understand the charge to the fee account may range from \$5,000 to \$10,000. Obviously this cost will be passed along to the housing commissions serviced by the fee accountant. Our fee accountant believes HUD does not yet require this standard for a housing commission's fee accountant. Therefore, the housing commission will investigate this matter and enforce it in the next fiscal year if required by HUD.

Finding/Noncompliance

**Questioned
Costs**

Finding No. 1

None

No Service Organization Report

In addition, our fee accountant contacted our auditor, in writing, to advise him that she would be willing to review all internal controls in place for audit purposes.

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<u>Section 8 Housing Choice 14.871</u>	<u>Finding No. 2</u> <u>Family Self Sufficiency Deficiencies</u>	<u>None</u>

The following items were noted as being exceptions to PIH 95-31, "Public and Indian Housing (PIH) Compliance Supplement" as it relates to the PHA's administration and control over its Family Self Sufficiency Program.

The PHA did not submit an annual report to the FSS families during my audit period. I found that the last annual report was submitted for the year ended 12-31-03.

HUD Notice 95-31 states, "The PHA is required to report at least once annually to each FSS family on the status of the family's FSS account."

In addition 2 out of 10 FSS files reviewed were not recomputed within one year.

HUD Notice 93-24 states, "The PHA/IHA must conduct a reexamination or interim determination if more than 120 days will occur between the effective date of the contract of participation and the effective date of the last reexamination or interim re-determination.) Thereafter, whenever the PHA/IHA conducts an annual reexamination or an interim re-determination of income for an FSS family during the term of the contract of participation. PHA's must compute the monthly escrow credit using the HUD escrow account credit worksheet (or another document, which incorporates

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<u>Section 8 Housing Choice 14.871</u>	<u>Finding No. 2</u> <u>Family Self Sufficiency Deficiencies</u>	<u>None</u>

the procedures from the worksheet). If the family had one or more interim re-determinations of income in the 12 months since the last annual reexamination, then the monthly escrow amount shown on line 12 or 13 of the worksheet may change during the year. Otherwise, the monthly escrow credit will be the same for the entire period between annual reexaminations."

Recommendation

I recommend that the PHA submit an annual report to all FSS families annually and re-compute the family's FSS credit according to HUD requirements for all families in the program.

PHA Reply and Corrective Action Plan

Due to staff error, the FSS escrow account reports were not mailed to the FSS participants in a timely fashion for fiscal 2004/2005; however, the FSS escrow account reports were mailed on 11/03/2005. In order to prevent this from happening in the future, the housing supervisor I will now track each FSS escrow account deposit, withdrawal, and interest, on a monthly basis using an Excel spreadsheet that has been developed for 2005 and beyond. In addition, the FSS case manager will also be required to check that the escrow reports are issued in a timely manner. The FSS case manager will also ensure that

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all FSS participants have their
escrow deposit amounts recomputed
by their housing specialists during
each (12) month period. This change
in procedure has been implemented.